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Part 4
Economic and Financial Standing of Companies

The present chapter includes the analysis of selected aspects characterizing the economic and financial situation of the surveyed enterprises. The analysis covers changes in the level of employment, companies' liabilities, especially their credit standing, the structure and dynamics of sales by various categories of customers, including the directions of exports, and profitability of companies. The scope and depth of the analysis are confined by the reliability and completeness of the available data. Some companies, under the pretext of commercial secrets, refused to release vital information.

4.1. Employment

Employment has been generally declining in the enterprises covered by the survey. 36 out of 52 firms gave answers concerning the number of employees prior to the privatization transaction and at the moment of carrying out the survey. Average employment in these firms declined from 825 to 733, i.e. by some 11 percent. A major proportion of firms (52.5 percent) cut their employment by 20 percent in the post-privatization period, but only 17 percent of them cut employment by more than 20 percent. It can be concluded that in most cases new owners attempt to improve labor force utilization through laying off redundant workers (in above 70 percent of cases). In the remaining 10 firms in which a rise in employment was recorded, in 70 percent of them employment rose up to 20 percent.

It is difficult to find a correlation between the implementation and completion of privatization transactions and the rise in employment. A major part of privatization transactions in the case of which an increase in employment in the post-privatization period is recorded, were started in 1994–1996. The final transactions concerning stakes in these companies were carried out in 1996 (60 percent of cases) or in 1998 (10 percent of cases). Hence, it cannot be argued that firms in which a rise in employment was recorded went through a long post-privatization period during which they restructured employment and started to make up for job losses.

It is also difficult to attribute the rise in employment to particular commitments assumed by the new owners and concerning job security. In practice, in 50 percent of cases in which employment went up, new owners had not assumed any commitments in this field, while in the remaining 50 percent they committed themselves to maintaining the level of employment existing at moment of implementation of the privatization transaction for the period ranging from 3 years (10 percent of cases) to 5 years (40 percent of cases). At the same time, in almost one third of cases in which firms actually laid off workers, they did not meet their commitments made at the period of privatization transaction. Hence it can be stated that the economic condition of firms was much more relevant for the dynamics of employment than the commitments assumed in the privatization transaction.

Table 4-1. Dynamics of employment in the post-privatization period (percent)

Dynamics of employment	Percent of answers in the whole number of companies
1. Employment reduction more than 20%	18.4
2. Employment reduction up to 20%	39.5
3. No change	13.2
4. Employment enlargement up to 20%	18.4
5. Employment enlargement more than 20%	10.5

Table 4-2. Dynamics of employment by industry (percent)

Dynamics of employment	Heavy and machine-building	Electronic and Electrical	Chemical, oil processing	Textile and Knitwear	Clothing	Food-processing	Agriculture industry	Other	Total
1. Employment reduction more than 20%	0.0	0.0	0.0	42.9	0.0	25.0	33.3	33.3	15.8
2. Employment reduction up to 20%	50.0	100.0	60.0	28.6	33.3	0.0	33.3	66.7	52.6
3. No change	0.0	0.0	40.0	0.0	33.3	25.0	0.0	0.0	0.0
4. Employment enlargement up to 20%	33.3	0.0	0.0	14.3	33.3	25.0	33.3	0.0	18.4
5. Employment enlargement more than 20%	16.7	0.0	0.0	14.3	0.0	25.0	0.0	0.0	7.9

Table 4-3. Dynamics of employment in companies with different types of ownership concentration (percent)

Dynamics of employment	One owner	Three owners	Many owners	TOTAL
1. Employment reduction more than 20%	20.0	0.0	20.0	16.7
2. Employment reduction up to 20%	60.0	50.0	55.0	55.6
3. Employment enlargement up to 20%	10.0	50.0	15.0	19.4
4. Employment enlargement more than 20%	10.0	0.0	10.0	8.3

Nevertheless, there is a very clear correlation between the growth rate of employment and the process of restructuring of production in the surveyed firms. Some 30 percent of them declared that the process of production restructuring had been completed or would be completed within a year, and in some 40 percent of them this process was considered to be continuous. When related to firms having increased their employment after completion of the privatization transaction these figures amount to 50 percent and 20 percent, respectively.

The dynamics of employment depended on branch. A rise in employment was recorded in half of machine-building industry firms, and in some textile-and-clothing and food-processing industry firms. At the same time, no electronic and electrical or chemical industry firms recorded an increase in employment in the post-privatization period. The dynamics of employment in the last two branches was probably affected by the necessity of employment optimization and the crisis which had hit these industries. Hence, it can be argued that the rise in employment in half of machine-building industry firms, i.e. in one of the sectors in which the output declined to the largest degree after 1990, the process of restructuring of activities of these firms has already ended or is about to end. It means that these firms are finally overcoming the crisis which affected the branch following the loss of the former CMEA countries' markets and increasing the share in other markets.

Firms having recorded a rise in employment are mostly profitable or have improved their financial results in the post-privatization period. In three cases, these firms recorded a more then 10 percent profitability both prior to and during the implementation of the privatization transaction. In another five firms financial results improved following the completion of the privatization

Table 4-4. Dynamics of employment and the ownership structure (percent)

Dynamics of employment	Dispersed	Domination of insiders	Domination of domestic outsiders	Domination of foreign investors
1. Employment reduction more than 20%	16.7	0.0	23.8	20.0
2. Employment reduction up to 20%	16.7	33.3	42.9	60.0
3. No change	33.3	50.0	0.0	0.0
4. Employment enlargement up to 20%	16.7	0.0	23.8	20.0
5. Employment enlargement more than 20%	16.7	16.7	9.5	0.0

Table 4-5. Dynamics of employment and the privatization method (percent)

Dynamics of employment	Cash privatization	Mass privatization	Employee and management buy-out	Foreign investors	Other	TOTAL
1. Employment reduction more than 20%	25.0	27.3	0.0	20.0	0.0	16.7
2. Employment reduction up to 20%	37.5	54.5	83.3	60.0	50.0	55.6
3. Employment enlargement up to 20%	25.0	18.2	0.0	20.0	33.3	19.4
4. Employment enlargement more than 20%	12.5	0.0	16.7	0.0	16.7	8.3

transaction, and in some cases this improvement was significant. In only two cases companies' losses still exceed by 5 percent their revenues from basic activities, despite the increase in employment following the conclusion of the privatization transaction.

There is no significant correlation between the dynamics of employment and ownership concentration. The distributions of firms by employment dynamics in the group in which the strongest ownership concentration was found (with the main shareholder being the owner of above 67 percent of shares), and in the group in which the ownership structure is most dispersed (more than five shareholders being the owners of 67 percent of the company's shares) are similar. In both cases, 20 percent of firms cut employment by above 20 percent, and some 60 percent of firms by less than 20 percent.

The presence of a strategic investor is usually coupled with considerable cuts in company employment. This is also the case with companies owned by domestic outsiders, but to a smaller extent. The least relevant job losses affected management- and employee-owned companies.

No apparent correlation was found between the applied privatization method and the dynamics of employment. The expectations according to which management- and employee-owned companies, in which the interests of employees were best safeguarded by the moment of carrying out the privatization transaction would aim at protection of the existing jobs have not materialized. In above 80 percent of cases, employment in these companies dropped by some 20 percent compared to the pre-privatization period.

4.2. Liabilities of Companies

The available data indicate that only 9 firms (some 17 percent of those surveyed) had not financial liabilities prior to implementation of the privatization transaction, and at the end of 1997 there were 12 such firms (some 23 percent of those surveyed). Only 16 firms covered by the survey revealed full data concerning the structure of their debts vis-a-vis various other economic entities, and another 16 firms provided incomplete data. As can be seen from the data on the structure of debts of firms which gave detailed information (19 firms identified more than 95 percent of debts prior to privatization and by the end of 1997), a major part of pre-privatization debts are those to suppliers (about 37 percent of all debts), followed by indebtedness to commercial banks (32 percent of debts). Debts vis-a-vis the state budget are also substantial (17 percent of debts). The remaining debts of companies are relatively insignificant. At the end of 1997, the structure of companies' debts showed a change, with the share of debts to suppliers falling by 4 percent, and the share of debts to all other economic entities, and especially to the state budget, local budgets and employees going up.

Very few firms revealed the level of overdue debts involved with financial liabilities to other economic entities. This may mean that either a small group of these firms have overdue debts, or that they did not want to answer that question. Most firms pointed to overdue debts to commercial banks – 9 firms prior to the implementation of the privatization transaction and 8 firms at the end of 1997. Overdue debts to suppliers and the state budget prior to the privatization transaction were reported, in each case by 8 companies. Their number dropped at the end of 1997, with 6 firms having overdue debts to suppliers and 5 firms overdue debts top the state budget. The number of firms with overdue debts to local budgets and employees also declined.

The value of overdue financial liabilities to the remaining economic entities decreased in real terms (deflation measured by the producer price index at the end of 1997 on December 1996), except liabilities to commercial banks. It should be remembered that some firms were privatized before 1996 and that the deflator should take into account accumulated inflation of the previous years. This way the indebtedness of firms vis-a-vis other economic entities would have fallen even more.

Overdue debts to commercial banks rose in real terms by some 80 percent. Four firms with overdue debts to commercial banks repaid them by the end of 1997 (or renegotiated them with banks), in three firms overdue debts to banks appeared after the completion of the privatization transaction, and the remaining three increased their indebtedness. The type (nature) of firms due to the privatization method is very interesting in this context. Three of the firms in which indebtedness to banks appeared in the post-privatization period (50 percent of cases) and those in which indebtedness rose after privatization are the socalled RMDs (employee-owned companies). One belongs to the group of firms with assets privatized by means of various privatization methods, or in which the state's stake remained high. The remaining two were privatized by the cash method, one of them having been bought by a foreign investor. At the same time, two out of firms having repaid (or re-negotiated) their overdue debts to commercial banks at the moment of privatization were privatized by the cash method involving a local investor, one was privatized within the mass privatization program, and one was bought by a foreign investor. It means that the firms in which the service of debts to commercial banks deteriorated substantially are mostly RMDs, and a sizable group of firms having repaid (or re-negotiated) their debts to banks were privatized by the cash method.

It can also be clearly seen that firms in which indebtedness appeared, or which increased their overdue debts to banks following the privatization transaction show a low concentration of the main package of shares. In five out of six cases, 67 percent of company shares were held by more than 5 owners, and only in one case – by a single firm. At the same time, firms having reduced or repaid (re-negotiated) their indebtedness vis-a-vis banks are owned by one owner (three cases) or by not more than three owners (one case).

There is no clear correlation between the branch affiliation of firms and the fall or increase in indebtedness vis-a-vis banks. Three of the firms having increased their debts to banks are operating in the machine-building industry, but at the same time of firm from this branch managed to reduce its indebtedness.

Analyzing the dynamics of overdue debts to other economic entities, two facts must be pointed out:

1. The number of firms in which indebtedness vis-a-vis suppliers appeared or increased (6 firms) was higher than that of firms which reduced or repaid such debts (3 firms);

2. Firms having reduced or repaid all their debts vis-a-vis the state budget, local budgets and social insurance institutions (7 firms) outnumber those having increased their debts vis-a-vis these subjects (2 firms).

It is difficult to find similar tendencies among firms having increased their overdue debts to other economic entities except banks, depending on the method of privatization or ownership concentration. Five out of six firms having increased their debts to suppliers were privatized by the cash method, and in one of these cases a foreign investor was involved. At the same time, two of the three firms, which reduced or repaid their debts vis-a-vis suppliers were privatized by the cash method, and in one of these cases a foreign firm was the buyer. Half of the firms having increased their debts to suppliers have a strongly concentrated majority stake ownership. In firms having reduced their debts to suppliers no specific tendencies in concentration of the ownership of shares are found. The firms having increased their debts to suppliers are dominated by machine-building and food-processing industry enterprises.

The dynamics of indebtedness of firms to the state budget and the State Social Security Office shows no specific trends as regards the privatization method, or ownership concentration, or branch affiliation of firms.

It must be noted, however, that at the same time some firms increased their indebtedness vis-a-vis several kinds of economic entities, which indicates that they encounter difficulties with financial liquidity and realization of their basic activities. Unfortunately, these firms failed to answer the questions concerning the dynamics of their sales and profitability, which makes it impossible to verify this hypothesis. At the same time, there are firms having totally repaid or reduced their debts vis-a-vis some economic entities, but increased their debts to other entities. For example, in two cases firms reduced their financial liabilities to the state budget and the State Social Security Office, but increased their liabilities to banks (in one of these two cases), or to all the remaining economic entities. It is very probable that in this case in was the reduction (forgiveness) of overdue debts to the state budget within the framework of the privatization transaction rather than their actual repayment.

Privatization did not have any major effect on the level and structure of the surveyed companies' receivables, either. Prior to the privatization transaction, 30 of the surveyed firms had receivables with other economic entities, while by the end of 1997 their number increased to 31. The real value of this indicator for all the surveyed firms almost halved, but this could be attributed to price developments in this period rather than to the striving of privatized firms at reducing their receivables. The level of this indicator at the end of that period is a typical phenomenon, as in many cases we have to do with supplier's credits granted by the surveyed firms to customers, or unrepaid tax credit granted by the state budget, which is a normal phenomenon in the economy, and in some cases it is also envisaged by the provisions of the law.

4.3. Bank Credit

According to the available data, bank credits were granted to 42.3 percent of the surveyed companies by the end of 1997. Above 80 percent of them revealed the value of disbursed credit funds, and in most cases these funds were relatively sizable. The value of 77.7 percent of the revealed credits exceeded DM 100,000.

As a major part of credits was inherited by new owners even prior to the implementation of the privatization transaction, there are no indications for the analysis of the correlation between the disbursement of bank credits by firms and the method of their privatization or concentration of the ownership of their assets. A more relevant analysis would be that of firms – debtors of banks, by branch structure, relative to the entire population of the surveyed firms. The findings indicated:

1. A relatively high share of firms utilizing bank credits in the following branches: manufacture of glass, pottery and earthenware, electrical industry and food-processing industry;

2. A relatively high share of firms utilizing bank credits in the machine-building and textile-and-clothing industries.

Bank credit were granted mostly in the domestic currency (some 80 percent of cases). Credits to be repaid in less than twelve months still prevail. They accounted for almost two-thirds of all credits (63.2 percent). Short-term bank credits were granted exclusively in the domestic currency, while almost half of long-term bank credits were granted in foreign currencies – US dollars or German marks.

In 1997, half of companies applied for bank credits. Almost two-thirds of firms applying for bank credits (65.4 percent) were credited by commercial banks. This means that a large share of firms applying for bank credits are granted such credits. According to various sources it is assumed that firms disbursing bank credits account for some 8 to 10 percent of firms operating in the economy.

The relatively high share of the surveyed firms in applications for credits and in credits received is undoubtedly connected with their size. The survey covered medium-sized and large enterprises which have, *caters paribus*, better access to bank credits compared to small firms. On the one hand, small firms find it easier to disappear from registers of companies, which makes it more difficult to enforce the repayment of their debts. On the other hand, large firms are more sensitive from the political point of view – they more often form lobbies in the executive bodies and in the state authorities. In the case of emergence of threats of their bankruptcy, strong pressure for rescuing them may appear, as politicians and state administration agencies do not want to allow rapid increase in unemployment both in particular regions and nationwide. Undoubtedly, large firms enjoy better opportunities in the field of access to bank credits.

A major part of firms having applied for bank credits represent a low degree of concentration of shares ownership. They account for more than 60 percent of firms of this group, while their share in the entire sample amounts to 48 percent. From the point of view of the method of carrying out the privatization transaction, the share of firms having applied for bank credits and with assets privatized in some specific way – through cash or mass privatization or as

Table 4-6. Companies having applied for bank credits (percent)

Companies	Percent
1. Having applied	50.0
2. Having not applied	46.2
3. No answer	3.8
TOTAL	100.0

Table 4-7. Companies having received bank credits (out of 26 firms having applied for bank credits in 1997) (percent)

Companies	Percent
1. Have received a credit	65.4
2. Have received a credit, but not the whole desired amount	11.5
3. Have not received a credit	23.1
TOTAL	100.0

Table 4-8. Types of ownership concentration in companies having applied for bank credits in 1997 (percent)

Ownership concentration	Percent
1. One owner	26.9
2. Three owners	11.5
3. Many owners	61.5
TOTAL	100.0

employee companies – is high. In most cases, these are firms with low degree of concentration of ownership of equity. It would indicate that the presence of a majority shareholder makes the firm less interested in bank credits.

This does not mean, however, that the credit needs of these firms are smaller. Maybe the smaller demand of these firms for bank credits is caused by unfavorable conditions. Most probably, with the banking system is not operating smoothly, banks tend to over-price their credits. They do it by raising the interest rate on credits, on the one hand, and by imposing additional conditions, on the other hand. This way they try to be secured given the lack of reliable information on the standing of firms and the generally high credit risk, typical of this sector in Bulgaria. This would suggest that profitable firms rather prefer financing their activities with own funds, and not with expensive bank credits and, by the same token, they do not apply for such credits. However the results of the survey do not confirm such opinions. The demand of firms reporting high profitability following the implementation of the privatization transaction for bank credits is equal or even higher than that of firms reporting low profitability or even losses.

As regards the branch structure of the surveyed firms which applied for bank credits in 1997, it can be stated that it was mostly food-processing industry firms which made attempts to obtain bank credits. The demand of firms operating in the farming sector for bank credits was relatively low. Almost all the surveyed food-processing industry firms (7 out of 8) applied for bank credits in 1997. Unlike these firms, only one out of the five surveyed farming sector firms applied for bank credits for its activities. Companies producing final goods applied for bank credits more often than those producing raw materials and semi-products.

The obtained data indicate that firms, which had already received credit before were more inclined to apply for them again. Firms which applied for bank credits and were not indebted to banks at the end of 1997 accounted for only 41.7 percent of all the non-indebted firms. At the same time, firms which were indebted to banks and applied for bank credits accounted for 68.8 percent of all the indebted firms.

No credits demanded by firms were to be spent on investment – the purchase of machinery, equipment, land or buildings. Almost all the credits received were working-capital credits – to be spent on companies' current operations. This is an indication of financial liquidity problems faced by the surveyed companies, and by the entire economy. The issue of securing working capital funds becomes one of the most significant problems for the realization of basic activities of firms. However, it should also be remembered that the period covered by the research was characterized by unstable macroeconomic situation, which had a strong effect on the investment activity of companies.

A relatively large share of firms applying for bank credits were granted them. Some two-thirds of firms applying for bank credits in 1997 (65.4 percent) received them in full amount, while only 23.1 percent of firms were refused credits.

Table 4-9. Branch affiliation of companies having applied for bank credits in 1997 (percent)

Branch	Percent
1. Heavy industry and machine-building	19.2
2. Chemical, oil processing	11.5
3. Textile, knit-wear, and clothing	19.2
4. Food-processing	26.9
5. Other	23.1
TOTAL	100.0

Table 4-10. Degree of product processing in companies having applied for bank credits in 1997 (percent)

Degree of processing	Have applied for bank credits	Have not applied for bank credits
1. Raw and base materials, semi-products	40.0	60.0
2. Finished goods	52.5	45.0
TOTAL	50.0	48.0

Table 4-11. Types of ownership concentration in firms having obtained bank credits (percent)

Ownership concentration	All companies	Companies which have obtained bank credits
1. One owner	32.7	30.0
2. Three owners	19.2	15.0
3. Many owners	48.1	55.0

Table 4-12. Profitability of companies in the year following the privatization deal realization (only the companies which have applied for a bank credit in 1997) (percent)

Profitability	Have obtained a full amount of credit	Have obtained not a full amount of credit	Have not obtained a credit	TOTAL
1. Below -10%	0.0	33.3	0.0	3.8
2. Between -5% and -1%	5.9	0.0	0.0	3.8
3. Between -1% and 1%	5.9	0.0	0.0	3.8
4. Between 1% and 5%	17.6	33.3	0.0	15.4
5. Between 5% and 10%	17.6	0.0	33.3	19.2
6. Over 10%	41.2	0.0	33.3	34.6
7. No answer	11.8	33.3	33.3	19.2

Banks rather tended to lend to firms with a higher degree of concentration of ownership of shares. Only in the case of one credit project in which the majority stake was owned by not more than three owners the application was turned down, while credits were refused in the case of five credit projects (above 30 percent of such cases) when the majority take was held by more than five owners. Banks granted credits in all the cases when they were applied for by employee companies or firms privatized by a foreign investor. On the other hand, only 50 percent of firms applying for bank credits and privatized by sale to a domestic investor, through cash privatization (excluding management- and employee-owned companies), or through mass privatization received such credits.

It can be assumed that current financial results of firms are one of the factors taken into account by banks making the decision on accepting the credit project. However, such results do not reflect exclusively short-term processes. From this point of view, it can be assumed that firms characterized by higher profitability would have easier access to bank lending. The results of the survey do not confirm that, either. It turns out that within the post-privatization year, or in 1997, if the privatization had been carried out earlier (11 cases altogether), all credit projects of loss-making firms or firms characterized by low profitability were approved as a whole or in part. All credit projects which were fully rejected by banks, had been submitted by firms with profitability higher than 5 percent in the year following the privatization transaction or in 1997, if the transaction had been carried out earlier, or in 42.9 percent of these cases. Apparently, the current profitability ratio was not taken into account as the reliable characteristics of the companies' ability to service indebtedness to banks. In two cases in which credits were refused, the reason was the insufficient collateral on credits, and in one case the business plan was rejected. In the remaining three cases no reasons for turning down the application for credit was given. Summing up, it can be stated that the basic criteria applied by bank in the process making decisions on granting credits in a specified form include the collateral on credit, the business plan and the degree of ownership concentration.

4.4. Structure of Firms' Customers

The results of the survey indicate that private commercial companies and foreign clients these firms have direct trade contacts with are the main customers of the analyzed firms. It should be stated that the average share of various groups of customers in the overall structure of sales is not connected with the value of sales. Private manufacturing firms are the following group of customers in the hierarchy of importance. The share of direct consumers (i.e. households) in the structure of sales of the surveyed firms is definitely low, and the share of state-owned enterprises – manufacturing or commercial companies is very small (below 5 percent in both cases).

Table 4-13. Structure of customers of the companies (unweighed average, 46 answers) (percent)

Major clients	Share of the client in sales
1. State-owned manufacturing companies	3.8
2. State-owned trading companies	4.1
3. Private manufacturing companies	14.5
4. Private trading companies	33.5
5. Final consumers (for example, individual citizens)	6.1
6. Products are being directly exported	35.6
7. Others	2.4
TOTAL	100.0

The relatively large share of private firms, both manufacturing and commercial, as well as the insignificant share of state-owned enterprises in the overall structure of sales of the surveyed companies is an indication of development of the private sector in Bulgaria, being both the result of privatization and establishment of new private companies from scratch. Some 95 percent of companies which answered the question concerning the structure of customers virtually maintained no contacts with state-owned firms, or their contacts are quite incidental (their sale to state-owned firms remains below 5 percent of their total sales. Such a level of a share can only be compared with firms not selling directly to end users (households). At the same time, firms not maintaining direct contacts with private commercial firms, or having only incidental contacts with such firms, account for 50 percent of the surveyed firms which gave answers to the question concerning the structure of customers. On the other hand, firms not maintaining trade contacts with private manufacturing firms account for 78 percent of the surveyed firms (the share of their sales for this type of firms does not exceed 5 percent of total sales).

Relatively many of the surveyed firms have no trade contacts with customers of the specific type. Most frequently these are state-owned firms and end users (consumers). At the same time, only few firms work for one major customer or for one type of customers. Only 8 surveyed companies (17 percent of the given answers) indicated that they were selling exclusively to private commercial firms (with the share of these sales exceeding 90 percent of their total sales, while 7 firms (15 percent) are involved in direct exports. None of the surveyed firms maintains contacts exclusively with state-owned firms, commercial or manufacturing. Although relatively few of the surveyed firms are associated exclusively with one major customer. Only 4 firms sell above 90 percent of their output exclusively to one customer, and only 8 sell 70 percent of their products exclusively to a single customer. The standing and performance of these firms depend exclusively on the situation of the major customer. On the one hand, negative occurrences in the development of the major customer may result in an unexpected slump in the firm's activities, at least in the short-term perspective, before the management provides for restructuring of sales. On the other hand, such customers have considerable purchasing power and from this position the major customer may negotiate more favorable conditions for himself, such as prices, dates and conditions of delivery, etc. These eight firms (15 percent of the sample), should diversify their sales and direct them to a larger number of buyers, to diminish their dependence on the major customer.

The relatively high share of direct exports in the structure of sales of the surveyed firms and the relatively low share of end users are in some sense the consequence of selecting the sample. It consisted of medium-sized and large industrial and farming firms. Commercial firms were not covered by the survey. This, undoubtedly, reduces the significance of end users (consumers) as customers of the surveyed firms, as the major part of retail sales is effected through the distribution network. On the other hand, setting the lower limit of the firm size leads to increased significance of direct exports in the structure of sales of the surveyed firms, as in most cases larger firms have better opportunities for establishing direct trade contacts with foreign firms.

Only eight of the surveyed firms admitted they did not export their goods directly or through intermediaries. At the same time, as many as 34 firms declared they directly exported their output. The remaining 10 percent of firms exported through intermediaries, Bulgarian or foreign. 22 surveyed firms (42.3 percent) sell above 50 percent of their output to foreign markets, either directly or through intermediaries. 10 firms (19.2 percent) virtually depend exclusively on exports, which account for above 90 percent of their sales.

Eleven firms export some of their products in the outward-processing traffic (OPT) formula. In six of them OPT accounts for more than half of their exports, and four work almost exclusively in this formula. In such firms exports account for 80 to 90 percent of their sales. However, only one of these firms works exclusively for one buyer, while the remaining three managed to diversify their sales among a larger number of buyers.

As most of the surveyed firms are engaged in some forms of exports, sometimes quite incidental (approximately 85 percent of the surveyed firms sell their products on foreign markets, and in 9 firms exports account for less than 20 percent of sales), the structure of exporting firms is not clearly separated from the entire structure of the surveyed firms, analyzed by particular characteristics. However, the following differences can be found in the structure of firms in which exports account for above 80 percent of sales:

1. Firms privatized by the cash method have a relatively larger share among firms in which exports account for more than 80 percent of their sales. Their share in the group of firms dominated by exporting activities is 37.5 percent, while at the same time their share in the group of the surveyed firms is by 8.5 percent lower. Firms privatized as employee-owned companies have by some 4 percent higher share in the group of firms dominated by exporting activities. Unlike these firms, those privatized under the mass privatization scheme have a relatively small share among firms dominated by exporting activities. Only two out of a dozen surveyed firms, privatized under the mass privatization scheme had 80 percent of their sales exported. In other words, their share in this group of firms is some 10.5 percent smaller than their share in the entire population of firms.

2. Some regularities were found in the branch characteristics of firms working mostly for exports, with textile-and-clothing and machine-building industry firms having a relatively large share. Firms from the food-processing, chemical and farming branches supply mostly the domestic market. It should be noted that exporting firms in the textile-and-clothing industry operate mostly within the framework of outward-processing traffic.

3. Most companies working predominantly for exports produce consumer and final goods. The share of exports in sales of firms producing capital goods and semi-products is insignificant.

The data obtained from the survey indicate that most of the privatized firms increased the volume of exports both in the year of implementation of the privatization transaction and in the following years. Ten firms having released information on the dynamics of their exports recorded their decline in the year of privatization (27 percent), while 17 firms recorded the rise in its volume (45.9 percent). In the remaining five firms the changes in the volume of exports ranged from -1 percent to +1 percent, which means that these exports were stable. Nevertheless, in the following post-privatization year the number of firms having cut the volume of their exports by more than 1 percent fell to 7, while the number of those having increased it by more than 1 percent rose to 26, which accounted for above 70 percent of firms having answered the question concerning the dynamics of exports. These data indicate that privatization had a favorable effect on the export activity of firms. It cannot be concluded whether the rise or decline in exports was involved with the degree of concentration of ownership of the equity, or with the privatization method. The rise or decline in exports was rather involved with the branch characteristics of firms. Exports went up in almost all the machine-building and clothing industry firms.

Nevertheless, the dynamics of exports in the perspective of just one year may reflect short-term cyclical fluctuations, which are not characteristic of long term potential of companies. It may be assumed that firms having cut or increased their exports in the long term, for example two years, had been hit by economic crisis and face problems with their survival, or are competitive and have a development potential. The number of firms having reported a rise in exports over two years (the year of privatization and the following) is 16, which accounts for 43 percent of firms having answered that question. These are mostly machine-building industry firms (43.8 percent of cases). Hence, it can be argued that privatization had a particularly beneficial effect on the export opportunities of the branch which recorded the steepest decline in the period since 1990. At the same time, only 4 firms recorded a fall in exports over two years. These firms belong to the textile, food-processing and farming branches. The number of firms in this groups is too small to draw reasonable conclusions as to the impact of ownership concentration or the method of privatization of these firms on long-term decline in exports.

A small number of firms presented the structure of their exports in connection with the way of expediting these exports – direct or indirect. Although prior to privatization of the surveyed firms a major part of their exports was effected without intermediaries, in all the cases of the declared restructuring of exports by methods of their effecting prior to and after privatization, intermediaries have been eliminated to the advantage of direct exports. In three cases this change is negligible – between 5 percent and 10 percent of total exports of firms. However, in one case the entire exports of the firm were effected by an intermediary, and following the firm's privatization his share in exports fell to 14 percent, while the remaining share of exports is directly sent to the foreign buyer.

Table 4-14. Companies having increased exports over the last two years and the privatization method (percent)

Privatization method	All companies	Companies which have increased their exports
1. Cash privatization	28.8	18.8
2. Employee and management buy-outs	21.2	25.0
3. Mass privatization	23.1	18.8
4. Foreign investor	11.5	18.8
5. Others	15.4	18.8

Table 4-15. Branch association of companies having increased exports over the last two years (percent)

Branch	All companies	Companies which have increased their exports
1. Heavy and machine-building	19.2	43.7
2. Textile and knitwear	17.3	12.5
3. Clothing	7.7	18.8
4. Others	55.8	25.0

Table 4-16. Structure of exports of the surveyed companies (unweighed average, 28 answers) (percent)

Region	Before privatization	At the present moment
1. Countries of the Balkan Peninsula	14.3	11.9
2. Central and East European countries	7.9	6.4
3. Russia and former Soviet republics	26.8	23.5
4. West European countries	35.6	38.8
5. Middle East countries	6.9	7.4
6. Other countries	8.5	12.0

Almost half of the surveyed firms (above 60 percent of exporting firms) provided information on the geographical composition of exports. Comparing two periods – prior to and after privatization, one should note a major re-orientation of exports by region.

The exports to the Balkan Peninsula countries, the Central and Eastern European countries and the former USSR countries have been declining, while the share of exports to Western Europe and other parts of the world has been increasing.

The firms participating in the survey were asked to evaluate the importance of various problems affecting their export capacities. The obtained answers indicate that the most important problem is posed by the growing prices of raw materials an other production inputs. It was mentioned by 75 percent of firms which gave the answer. The prices of final goods and services offered by exporting firms depend on fluctuations of world market prices for relevant groups of goods and services, and their changes are often not correlated with changes of prices of raw materials an other production inputs on the Bulgarian market. If raw and base materials are mostly imported, it is very probable that their prices affect world market prices of the final product. If, however, the production inputs are of domestic origin, the rise in their prices would adversely affect the export capacities of firms.

The following two problems pointed out by firms participating in survey are the increase in customs duties and tariffs and high international standards and quality requirements.

Firms pointing to duties and tariffs and the next problem in the hierarchy of importance export mostly to Russia and the former USSR countries, as well as to Western Europe. The problem of customs duties applicable to Bulgarian goods exported to Russia was often on the agenda of official Bulgarian–Russian meetings, but still remains to be solved. At the same time, the problem of customs and tariffs on Bulgarian goods exported to Western Europe was to a major extent solved following Bulgaria's accession to the World Trade Organization and the conclusion of an agreement between Bulgaria and the European Union. Bulgaria's accession to CEFTA and signing bilateral trade agreements with other countries, such as e.g. Turkey, also leads to a reduction of customs duties on Bulgarian goods.

In many cases, the access of Bulgarian goods to foreign markets is limited, or even denied due to their poor quality. This is the consequence of both increased requirements set by foreign customers, as well as product quality norms and

Table 4-17. Problems involved with exports (a five-grade scale from "1" to "5", where "1" means the most important problems and "5" means the least important problems) (percent)

Problems involved with exports	Grade
1. Increase of prices of raw materials etc. used	4.3
2. Increase of customs duties and tariffs in the destination country	3.4
3. Existence of non-tariff barriers	3.0
4. Problems with products marketing	2.9
5. Establishment of new technological, ecological, etc. standards in the destination country	2.7
6. Political reasons (embargo, change in foreign policy priorities, etc.)	3.0
7. Export license obtaining	2.1
8. Bureaucratic obstacles	2.4
9. Irregular payments on the part of clients	2.6
10. High customs duties	2.8
11. Lack of information on foreign markets	2.8
12. High international product quality standards	3.3
13. Language, cultural, etc. barriers	1.6
14. Forwarding organization	2.0
15. Difficulties in finding export credits	2.5

Table 4-18. Dynamics of sales at constant prices (compared to the previous year) (percent)

Sales	In the privatization deal realization year	In the year following the privatization deal realization
1. Below -10%	17.4	18.2
2. Between -5% and -1%	4.3	9.1
3. Between -1% and 1%	4.3	9.1
4. Between 1% and 5%	21.7	9.1
5. Between 5% and 10%	21.7	27.3
6. Over 10%	0.0	9.1
7. No answer	30.4	18.2

standards binding on those markets. There are three main reasons why Bulgarian goods and services do not fulfil the quality requirements set by foreign importers.

1. Obsolete technologies and machinery used by Bulgarian producers. Lack of necessary funds and unstable macroeconomic situation in the country by the beginning of 1997, which was an obstacle to undertaking by producers necessary investments modernizing technological processes. Besides, a major part of the surveyed firms had been just privatized and new owners did not have enough time to implement necessary changes to the investment policy of firms.

2. Sharp decline in households' real incomes during the economic crisis, which resulted in a dramatic fall in demand, and consumers became extremely price-sensitive. This way, the "low prices – low quality" strategy became most appropriate for Bulgarian producers. However, this approach considerably reduced their exporting opportunities on other markets, where customers have larger purchasing power and where such a strategy is bound to fail.

3. State administration agencies, which are to supervise quality requirements, are not working properly. One can have an impression that the norms required in this field are not as strict and those in other countries. If higher quality requirements were applied to Bulgarian products on the domestic market, it would contribute to faster alignment with foreign markets' standards even prior undertaking export activities.

The following problems involved with export activities, pointed to by the surveyed firms in the order of importance, include: imposition of non-tariff barrier to Bulgarian exports (to some extent this problem has been solved after signing an agreement between Bulgaria and the EU), political reasons and problems involved with marketing of production. Private entrepreneurs, being new owners of privatized firms are expected to find it easier to cope with the last group of problems, by spending more funds on drawing up and implementation of marketing schemes for their firms. When large, international companies become new owners, their name and trademark can also support marketing efforts of privatized firms.

4.5. Dynamics of Sales and Profitability

A relatively small percentage of the surveyed firms answered the questions concerning the dynamics of sales and profitability in the year of privatization and the following year. Only 22 firms (42.3 percent of the surveyed firms) presented their dynamics of sales, and 35 firms (67.3 percent) presented their profitability in the analyzed period. The results of the research indicate that only 6 firms cut their sales by more than 1 percent in the year of carrying out the privatization transaction (26.15 percent of the obtained answers), while 12 firms (52.7 percent of answers) increased their sales by more than 1 percent in the same period. In the first year of privatization, the number of firms with sales declining by more than 1 percent increased to 8 (36.4 percent of the obtained answers), while the number of firms with sales rising by 1 percent remained the same. The number of firms with a relatively stable level of sales in the first post-privatization year also diminished. As regards firms which had been privatized earlier, i.e. those for which 1997 was not the first post-privatization year, the sales of one-third of them (30.7 percent of firms) dropped in 1997, while the sales of the remaining two-thirds of firms increased.

In most cases, firms whose sales declined in the first post-privatization year are characterized low degree of ownership concentration, with the majority stake owned by more than five shareholders in 62.5 percent of firms from this group. At the same time, it is difficult to find any regularities in reference to the method of privatization, or the branch affiliation in this group of firms.

Also firms with low capital concentration prevail in the group of firms having increased their sales in the post-privatization year (firms in which the majority stake was owned by more than five shareholders accounted for 66.7 percent of firms from this group). However, in this case firms privatized through cash privatization (not as employee-owned companies) accounted for one-third of firms. From the branch point of view, firms having increased their sales in the first post-privatization year

Table 4-19. Dynamics of profitability of the surveyed companies (percent)

Profitability	In the year preceding the privatization deal realization	In the privatization deal realization year	In the year following the privatization deal realization
1. Below -10%	14.3	5.7	5.6
2. Between -5% and -1%	2.9	2.9	2.8
3. Between -1% and 1%	2.9	5.7	2.8
4. Between 1% and 5%	5.7	2.9	2.8
5. Between 5% and 10%	31.4	20.0	19.4
6. Over 10%	22.9	31.4	25.0
7. No answer	20.0	31.4	41.7

operate mostly in the machine-building, chemical and food-processing industries.

Nine firms (40.9 percent of the obtained answers) recorded a rise in sales over the past two years, and another five firms (22.7 percent) – a decline in sales in the same period. It is difficult to find specific regularities as to the concentration of ownership, the method of privatization or branch affiliation.

Thirty five firms (67.3 percent of the sample) presented data on their profitability in the year of implementation of the privatization transaction and in the following year. Negative profitability in the year of privatization was recorded by 5 firms (20 percent of the obtained answers), and, at the same time, 29 firms (82.9 percent of the obtained answers), had positive profitability. In the first post-privatization year, the number of firms with negative profitability dropped to four, while the number of firms with positive profitability rose to 31 (88.6 percent of the obtained answers). All firms for which 1997 was not the first post-privatization year, and which proved to be profitable (there were 14 such firms on the whole), made profits in 1997. These results allow to assume that privatization had a positive impact on the dynamics of profitability in most cases. Nevertheless, it should be realized that in 1997 a major part of firms had a positive financial result of their activities (profit), which was mostly due to high inflation. A similar phenomenon was noticed in the remaining countries of Central and Eastern Europe in the period of their transition to a market economy. To carry out a more detailed analysis of the impact of privatization on profitability of firms it is necessary to compared their financial results with those of other firms in the branch and in the entire economy.

Only 4 firms recorded losses in the post-privatization year, so it is difficult to make generalizations in reference to the remaining characteristics. It should be noticed, however, that in 3 of them the majority stake is owned by three shareholders, and in one of them by more than 5 shareholders. Three firms are operating in the machine-building industry and one in the farming sector.

All firms in which the majority stake is owned by only one investor, and which gave answers about their profitability, made profit in the post-privatization year. At the same time, the remaining firms from the other two ownership concentration categories, recorded losses or their financial result was close to zero. This would give grounds for thinking that higher concentration of ownership contributed to achieving positive financial result in the post-privatization year. Analyzing the financial results from the point of view of privatization methods, it can be noticed that all employee-owned companies and firms privatized by a foreign investor made profits during the analyzed period. The number of firms with negative financial results after privatization was too small, so it may be argued that this was rather due to the problems concerning basic activities, or troubles inherited from the pre-privatization period, which were specific for individual firms.

Analyzing the dynamics of profitability of firms which gave answers to questions concerning that issue, it can be noticed that 14 of them managed to improve their profitability following the firm's privatization, while in only 3 firms this profitability deteriorated compared to the pre-privatization period. In five cases firms recorded losses prior to the implementation of the privatization transaction, but already in the first post-privatization year they found themselves in the group of profitable firms. At the same time, only one of the firms whose profitability deteriorated moved from the profit-making group to the loss-making group.

4.6. Conclusions

1. In most of the surveyed enterprises the effectiveness of labor force utilization improved in the post-privatization period, as can be seen from the decline in the level of employment. Despite various commitments concerning the level of employment assumed in most privatization contracts, the employment in companies fell by 13 percent on the average.

2. The obtained data indicate that the privatization did not affect much the liabilities of the surveyed companies. In the post-privatization period neither the level of liabilities nor their structure showed any major changes. The average

level of deferred liabilities declined, except the indebtedness to banks and to suppliers. Privatization did not have any major effect on the level and structure of the surveyed companies' receivables, either.

3. According to the available data, bank credits were granted to less than half of the surveyed companies. Credits to be repaid in less than twelve months accounted for almost two-thirds of all credits. In 1997, almost half of companies applied for bank credits, of which two-thirds were granted such credits. It can be seen from the analyses that firms having obtained credits in the past more often apply for new credits. Almost all the credits received were working-capital credits. This is an indication of financial liquidity problems faced by the surveyed companies. Difficulties with receiving credits, especially as regards guarantees, have an adverse impact on the ability of financing investment projects indispensable for enterprise modernization and restructuring.

4. Private trading companies and foreign customers are the main buyers of products sold by the surveyed companies. The share of direct consumers among the buyers is definitely low, although half of the companies manufacture consumer goods. The same refers to buyers being state-owned enterprises. Each of these categories of customers buys, on the average, only 5 percent of the surveyed firms' output. Almost 85 percent of companies sell their products on foreign markets, with every second company exporting at least half of its output. Two-thirds of companies export their products directly, and 20 percent through intermediaries. In the post-privatization period, the geographical composition of the surveyed enterprises' exports has been significantly reoriented. The share of the Balkan Peninsula countries, the Central and Eastern European countries and the former USSR countries has been relatively declining to the advantage of Western Europe and other parts of the world.

5. The export growth faces many barriers. First of all, the surveyed companies mentioned the growing prices of production inputs. The following hindrances to export growth include the increase in customs duties and tariffs and high international standards and quality requirements. Moreover, exports are limited by non-tariff barriers imposed in some areas, as well as by political conditions. Apart from poor quality of Bulgarian goods, the internal conditions hampering the growth of exports include their poor marketing and promotion.

6. As regards the dynamics of sales, the companies having released the relevant data can be divided into three groups. The first group consists of companies whose sales declined in real terms over the analyzed period. In the year of privatization every fourth firm belonged to that category. In the first post-privatization year, the share of such companies increased to above 36 percent. The second group is made up of companies whose sales remained virtually unchanged. There were almost 22 percent of such companies in the year of their privatization. In the first post-privatization year their share declined to 9 percent. The third group covers companies reporting a rise in sales. They are in majority, and their share in the first post-privatization year rose slightly compared to the year of privatization and exceeded 54 percent.

7. A vast majority of the surveyed companies (83 percent of those having released the data) reported positive profitability in the year of their privatization. In the post-privatization year this share rose to 87 percent. Negative profitability in the year preceding privatization was reported by one out of five surveyed firms, in the year of privatization by one out of seven and in the year after privatization by one out of nine. This is an indication that privatization covered mostly good firms with positive profitability, or firms able to quickly improve their profitability. Indeed, some 40 percent of privatized enterprises the profitability improved in comparison to the pre-privatization period, and in only some 10 percent of firms this profitability deteriorated.